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PREDATORY LENDING

(WHAT CONSUMERS SHOULD KNOW)

Predatory Lending refers to the use of unfair and abusive mortgage lending practices that result in a borrower paying more through high fees or interest rates than the borrower's credit history warrants. It involves fraudulent practices that target vulnerable consumers and plays on the hopes and dreams of innocent people whose investment in home is their security. Due to the complicated nature of mortgage transactions, it is often difficult for individuals to tell the difference between legitimate and predatory loans

- **The following information is made available by**
- American Bankers Association Education Foundation
- *NeighborWorks*® America
- *Federal Home Loan Banks*
- *Council of Federal Home Loan Banks*

Protect Yourself from Lending Abuse

Abusive or "predatory" lenders target people who are strapped for cash. But the loans they push usually have sky-high interest rates and fees. They're often illegal, too. You need to know how to tell a "good" loan from a bad one. Otherwise, you could end up paying too much, hurting your credit rating—and even losing your home.

Ask yourself:

Do I feel pressured?

- Watch out for harassing phone calls or solicitations from lenders who say they can give you next-day approval.
- The same goes for lenders who offer "guaranteed" low-interest loans—as long as you apply over the phone and pay them money today.

Have I shopped around for the best deal?

- Check with other lenders, including local banks, for their rates and total costs.
- Compare the interest rates and the total costs for your loan with those of other lenders.
- Beware of high up-front fees and percentage "points." They can turn a loan with low monthly payments into one that actually costs you more in the long run.

Is it too good to be true?

- Watch out for telemarketers, TV ads or door-to-door salespeople who offer easy or quick-approval loans for houses, cars and home repair but do not disclose the details. Read the fine print to make sure what you're told is what you're getting.
- Avoid lenders who say bad or no credit is "no problem." Lenders you can trust don't do business this way.

Can I trust the lender?

- Get references and check them out. Don't rely on the lender's word.
- Call your local Better Business Bureau and ask if it has had complaints about any of the lenders you are considering.

Do I understand the loan terms?

- Before borrowing, you should know exactly what you're getting and what you're paying. Never be afraid to ask the lender to explain any fees, terms or conditions you don't understand. And never sign a blank form.
- Make sure what you sign is what you agreed to verbally. Don't sign any contract that does not agree with what the salesperson presented.

Also:

- Ask yourself if prepaying for credit life insurance is the best way for you to go. It will protect your family by paying off the loan if you get sick or die. But paying it up-front can add to the monthly cost of your loan.
- Think twice about a loan that has a large amount due at the end of the scheduled payments. This one final, or "balloon," payment could be beyond your ability to repay.
- Watch out for lenders who tell you not to worry if you find you can't pay your mortgage—they'll help you refinance your loan if you need to. Predatory lenders make money from the high fees and closing costs they'll charge you to refinance the loan they knew you couldn't afford to repay in the first place.
- Never sign a loan contract until you have all the facts—and understand every part of what you're signing. Ask for advice from someone you trust: a banker, an accountant or a family member or friend who has had experience with getting and paying back loans. Or call a local nonprofit credit counseling agency for free help (you'll find them in the Yellow Pages).
- Remember that you have the legal right to change your mind for any reason within three days of signing most loan contracts that use your home as the security.

Report Abusive Lenders

If you have been a victim of lending abuse, let others know! Your complaint could save others from being victims, too. Call your local office of consumer affairs or your state Attorney General's office—they're listed in the Government section of the phone book.

Report your experience to the Federal Trade Commission. It watches out for predatory lending scams and frauds.

- Call toll-free 1-877-FTC-HELP (382-4357),
- Write to Federal Trade Commission, CRC-240, Washington, D.C. 20580.
- Or go to <http://www.ftc.gov/> to file a complaint online.